UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.	)))	Docket No. ER17-1433-003

ANSWER AND MOTION FOR LEAVE TO ANSWER OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rules 212 and 213 of the Commission's Rules and Regulations,[1] Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor ("Market Monitor") for PJM Interconnection, L.L.C. ("PJM"),[2] submits this answer to the comments and protests filed on August 9, 2021, by Exelon Corporation, et al. ("Exelon"), XO Energy, LLC et al. ("XO Energy") and Vitol Inc. ("Vitol"). None of the arguments raised by Exelon, XO Energy or Vitol against PJM's compliance filing submitted in this proceeding on July 19, 2021, have merit. PJM's compliance filing should be accepted.

I. ANSWER

A. PJM's Proposed FTR Forfeiture Rule Meets the Commission's Requirements.

Exelon (at 7), XO (at 10, 11) and Vitol (at 4) claim that PJM's proposed FTR Forfeiture rule does not meet the Commission's requirements for an FTR forfeiture rule that sufficiently deters manipulative behavior without significantly burdening legitimate market activity. The complainants argue (Vitol at 5, XO at 10, Exelon at 10) that PJM's proposed standard is an improvement to PJM's previous compliance filing because it reduces the

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1 18 CFR §§ 385.212 & 385.213 (2021).

2 Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff ("OATT"), the PJM Operating Agreement ("OA") or the PJM Reliability Assurance Agreement ("RAA").

amount of forfeitures, but complain that PJM's proposal does not adopt proposals previously raised by the complainants that were designed to reduce or eliminate the efficacy of the FTR forfeiture rule, but were rejected by the Commission. The three complainants appear to be under the misapprehension that any simultaneous FTR and virtual activity in which they engage is per se legitimate.

Vitol argues (at 6) that "no matter how many adjustments are made to the FTR Forfeiture Rule, there will still be unjust and unreasonable applications forfeiting legitimate hedging." XO complains (at 10, 11) that the PJM proposal does not examine the entire FTR portfolio relative to the virtual portfolio for financial leverage and does not test for intent to manipulate the market. Exelon complains (at 11) that the rule is triggered by "normal" virtual activity and suggests (at 13) an arbitrary threshold that would eliminate consideration of constraints with a dfax effect of 10 percent or less and/or (at 14) arbitrarily eliminate the consideration of virtual bids made at hubs or load zones.

All of the arguments and proposals provided by the complainants were vetted and rejected by the Commission.[3] The complainants' collective position is that their activities should be protected from any FTR Forfeiture rule, regardless of their impact on the market. Vitol and XO's position is that there should be no FTR Forfeiture rule. Exelon's position is that the FTR Forfeiture rule should be custom crafted so as to not be triggered by Exelon's specific activity at hubs and zones, regardless of the impact on the market.

Contrary to the assertions of the complainants, PJM's proposed FTR Forfeiture rule in the July 19th Filing meets all the requirements of the 2017 Order and May 20th Order. PJM's proposed FTR Forfeiture rule triggers a forfeiture when the net flow across a given constraint attributable to a participant's portfolio of virtual transactions meets two criteria:

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[3] *PJM Interconnection, L.L.C.*, 175 FERC ¶ 61,137 (2021) at 26, 29, 30, 34, 53, 59, 60, 70, 72, 76. 82, 85, 86, ("May 20th Order") and *PJM Interconnection, L.L.C.*, 158 FERC ¶ 61,038 (2017) at 33, 57, 62, 63, 64, 65, 79, 80, 82 ("2017 Order").

the net flow must be in the direction to increase the value of an FTR; and the net flow must exceed a defined percentage of the physical limit of a binding constraint.[4] PJM's proposed FTR Forfeiture rule evaluates the net impact of a market participant's entire portfolio of virtual transactions, including virtual bids that sink or source at zones, hubs and interfaces, on each of the participant's individual FTR positions.[5] PJM's proposed FTR Forfeiture rule applies to every FTR of a market participant, including counterflow FTRs and FTRs that had a source and/or sink at zones, hubs and interfaces.[6] PJM's proposed FTR Forfeiture rule applies to all virtual transactions held by entities that share common ownership as part of the same portfolio.[7] The Commission stated that neither leveraged nor unleveraged positions are exempt from the FTR Forfeiture rule.[8]

Finally, PJM's proposed FTR Forfeiture rule, (July 19th Filing) directly addresses the Commission's concern that the level of forfeiture under PJM's original April 2017 compliance filing (the entire profit of the affected FTR for an hour) was disproportionate relative to the definition of the positive impact.[9] Under PJM's proposed FTR Forfeiture rule, the forfeiture is based only on the impact of the triggering constraints on the affected FTR, rather than the entire hourly FTR profit. PJM has eliminated the definition of positive impact and applies both the violations and the forfeiture amounts directly to affected constraints.

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[4] *See* 2017 Order at P 60; May 20th Order at P 26.

[5] *Id*. at PP 2, 24, 57–58, 63 & 73.

[6] *Id*. at PP 57–58, 63 & 73

[7] *Id*. at P 61.

[8] *Id*. at P 80.

[9] *See* May 20th Order at PP 35, 50, 54, 56, 58 & 110.

B. Vitol and Exelon Mischaracterize PJM's Proposal.

Vitol (at 4) and Exelon (at 9) state that the proposed FTR Forfeiture rule will encumber any virtual portfolios that "impact the net flow on a day-ahead constraint by 0.1 MW or 10% or more whereby the net flow is in the direction that increases the value of the FTR." This is not true.

The proposed rule will only trigger a forfeiture when the net virtual portfolio impacts the net flow on a day-ahead constraint by 0.1 MW or 10 percent or more and the net flow is in the direction that increases the value of the FTR and in addition when the DA price spread on the FTR path is greater than the RT price spread on the FTR path. The same virtual activity where the DA spread is less than or equal to RT would not trigger a forfeiture.

For these reasons, Vitol's assertion that the combination of FTR and virtual activity by a participant always results in DA and RT Convergence is incorrect. Vitol claims (at Vitol 7-8) that "(a) key optimization principle and benefit associated with trading both FTRs and virtuals simultaneously is the promotion of convergence between day-ahead and real-time pricing." There is no basis for this claim.

C. Efficient Investment in Generation Is Not Dependent on Combining FTRs and Virtuals.

Vitol claims (Vitol at 1) that PJM's FTR Forfeiture rule has had "substantial negative impacts on generation investment within PJM, particularly with respect to investment in renewable and intermittent resources that need to be able to hedge day-ahead and real-time congestion price exposures." Vitol's assertion has no basis whatsoever.

PJM's markets provide locational marginal prices for energy and locational prices for capacity to provide efficient locational investment signals to existing and potential generation investment. These prices, plus revenues from ancillary services markets, provide the signals necessary for efficient investment in PJM. In addition, renewable resources are provided federal and state specific subsidies based on specific policy initiatives. These market signals are sufficient for efficient generation investment decisions. There are 160,392.1 MW of renewable generation in the PJM queues.[10]

Vitol has access to non PJM markets for managing nodal risk in PJM. Vitol does not have the right to make profits from the use of a combination of virtuals and FTRs in PJM markets in ways that increase the value of FTRs and cause price divergence between day-ahead and real-time markets. The FTR Forfeiture rule does not ban the behavior, but simply prevents market participants from profiting from the behavior on a tightly focused, constraint by constraint basis. The PJM markets remain efficient and competitive precisely because of clear and targeted rules like the FTR Forfeiture rule.

II. MOTION FOR LEAVE TO ANSWER

The Commission's Rules of Practice and Procedure, 18 CFR § 385.213(a)(2), do not permit answers to answers or protests unless otherwise ordered by the decisional authority. The Commission has made exceptions, however, where an answer clarifies the issues or assists in creating a complete record.[11] In this answer, the Market Monitor provides the Commission with information useful to the Commission's decision making process and which provides a more complete record. Accordingly, the Market Monitor respectfully requests that this answer be permitted.

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10 See the *2021 Quarterly State of the Market Report for PJM: January through June*, Section 12: Transmission Planning, the State of the Market Reports for PJM can be found on the Monitoring Analytics website. <http://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2021.shtml>

11 *See, e.g., PJM Interconnection, L.L.C., 119 FERC ¶61,318 at P 36 (2007) (*accepted answer to answer that "provided information that assisted … decision-making process"*); California Independent System Operator Corporation*, 110 FERC ¶ 61,007 (2005) (answer to answer permitted to assist Commission in decision-making process); *New Power Company v. PJM Interconnection, L.L.C.*, 98 FERC ¶ 61,208 (2002) (answer accepted to provide new factual and legal material to assist the Commission in decision-making process); *N.Y. Independent System Operator, Inc.*, 121 FERC ¶61,112 at P 4 (2007) (answer to protest accepted because it provided information that assisted the Commission in its decision-making process).

III. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to this answer as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,

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Dated: August 24, 2021

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Eagleville, Pennsylvania,
this 24th day of August, 2021.

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